Initial Comments to the
Renewables Committee of the California Energy Commission

In the Matter of:
Implementation of Renewables Portfolio Standard Legislation
(Public Utilities Code Sections 381, 383.5, 399.11 through 399.15, and 445 [SB 1038, SB 1078])

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RPS Proceeding

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Clean Power Markets, Inc. (CPM) appreciates the opportunity to provide comments on the Phase II implementation issues under California's Renewable Portfolio Standard (RPS). We acknowledge the effort of the Energy Commission and CPUC collaborative staff in soliciting input on the many issues before them. We offer initial comments today on development of the tracking and verification system, which may be followed up by additional comments as a result of today's workshop.

Brief Overview of Phase I Comments

Comments received by the CPUC in Phase I of the RPS Proceeding present a wide range of views on the purpose and capabilities of a tracking and verification system. There seems to be general agreement that the system should serve as an accounting mechanism for measuring compliance with the RPS. Many recognize the opportunity that the system can serve as a central clearinghouse to avoid double-counting. Many also support the concept of a system that allows flexible compliance, particularly in regard to forward and deficit banking of RPS-eligible renewable power.

The use of Renewable Energy Credits (RECs) spans the spectrum between those who do not want to use RECs at all to those who want to unbundle RECs from the energy. There are a variety of views on what environmental benefits are transferred to a utility that purchases renewable power, whether those benefits are embodied in a REC or are part of the bundled renewable megawatt-hour.

Brief Overview of RPS Tracking Systems

The Appendices provided as background for today's workshop demonstrate the wide range of systems used in states that have a renewable portfolio standard. They range from manual "systems" that verify a contract path for bundled renewable energy between a renewable generator and a utility (as in Iowa), to complex automated systems that unbundle both brown and green power and generate an electronic certificate for each megawatt-hour (as in NEPOOL). In Texas, which has a deregulated electricity market, RECs are used to verify compliance with the RPS through an automated system. In Wisconsin, which operates under a regulated environment, RECs are issued only for renewable generation delivered in excess of a utility's RPS obligation, also through an automated system.

Objectives for a CA System

Observing that there are a wide range of perspectives on the purpose and use of a system, we offer some basic objectives for development of a California tracking and verification system.

First, the system should be *simple*. This allows the system to be modified over time to meet changing and evolving market conditions. Designing a complex system will lock California into a framework that may not serve the State's best interests as the renewable market evolves.

Second, the system should be *flexible*. We expect that California utilities, generators, and regulators will be the initial users of this system. But the system should be flexible to enable ESPs, community aggregators, out-of-state entities, and possibly international users to also take part. A complex, high-cost system will be expensive to modify as the market changes, whereas a simple, low-cost system allows for greater flexibility.

Third, a simple, *interim system* that can meet the initial accounting requirements for 2003 compliance makes sense. Developing a simple system in a short-time frame (less than 6 months) allows everyone to experience some initial benefits early on. Such a system can be developed in a cost-effective manner, and meet the primary requirements of the legislation to:

- Measure RPS compliance;
- Provide flexible compliance with forward and deficit banking;
- Prevent double-counting through a centralized California clearinghouse / database; and
- Verify retail product claims in terms of fuel source disclosure.

Fourth, we believe that an *automated, REC-based system* is preferable to a contract path system. As CalWEA pointed out in their comments, tracking RECs is the same as tracking MWhs of electricity generated if RECs are not unbundled from energy at this point. However adoption of a REC-based system provides the flexibility to move to a REC-based program if the parties agree that this is best for California. A REC-based system provides a superior method of preventing double-counting. A Commission-mandated central clearinghouse / database to verify and track California transactions provides the most cost-effective and accurate approach to prevent double-counting. A REC-based system also provides an easy way for forward and deficit banking of renewable energy. Allowing a small number of RECs to be unbundled and traded separately from the energy will facilitate broader retail provider compliance from ESPs and community aggregators.

Fifth, *time is needed to reach general agreement* on what an optimal system will look like. Our experience has found that starting with a simple system provides a framework to build upon when many constituencies need to be heard and accommodated. Having everyone work with a simple system to start will provide the opportunity for early success. This will then generate creative approaches for the optimal solution. The first step is for users to experience how a basic system makes things easy. This will lead to better understanding of how other features can be added to enhance the program, allowing the many parties to this proceeding to reach agreement on what comprises the optimal system for California.

Broad Overview of a California System

The basis for any tracking and verification is accurate meter readings from the renewable generators. California is fortunate that the ISO has a system in place that collects this basic information. As IEP points out in their comments, consistent treatment of energy and RECs in terms of loss factors (GMMs) is necessary. If out-of-state generators are included in the mix, a consistent method must also be applied to them. Additionally, out-of-state generators that participate in the California program must agree, through force of law, that all of their output will be tracked and verified through the California system to avoid double-counting.

Use of an automated, REC-based system, can form the basis for any type of secondary function that might be added, including voluntary wholesale trading of renewable energy or RECs.

Different users will have easy access to the system through a website, with the high-level design as shown in the diagram below. From the home page, it is possible for new users to register in the system, existing users to access the system and their own specific data, and for public reports to be accessed. The type of data that would be available on the public pages is something that would need to be agreed to during discussions on the optimal system design. The public data can range from aggregated data that provides a snapshot of the RPS program in the State, to more detailed information about each user-type (utility, generator, ESP, aggregator, and others) and their RPS compliance.